S

FARMERS' NEWSLETTER
Wheat

Wheat prices are the lowest in 3 years, and without a reduction in U.S. supplies, prospects for recovery are limited. To improve chances for better prices, the Secretary of Agriculture has used authorities in the new farm bill to announce a voluntary 15-percent reduced acreage program.

To participate, you must reduce 1982 wheat-for-harvest acreage by at least 15 percent from an established wheat base and devote that land to conservation uses. This base generally will be the higher of either your 1981 wheat acreage or the average of your 1980 and 1981 wheat acres.

Although you should check with your county ASCS office for full details, here's how the program will work:

- A farmer with a base of 100 acres can plant no more than 85 acres of wheat for 1982 harvest. The 15 acres reduced (17.65 percent of 85 acres) must be devoted to a conservation use. Farmers planting less than the full 85 acres to wheat can devote fewer acres to conservation. For example, if only 50 acres are planted, only 8.8 acres (17.65 percent of 50) would have to go to conservation.

- The land taken from production and devoted to conservation must be eligible cropland protected from wind and water erosion. Land already planted to winter wheat and then designated as reduced acreage may be cut for hay or grazed, but cannot be harvested mechanically for grain.

- For spring wheats, grazing is not permitted on conservation-use acreage during the 6 main growing months as determined by the ASC committee. No payments will be made for grazed acres.

- Neither offsetting compliance nor cross compliance is required. In other words, a farmer owning or operating more than one farm need not participate on all farms to be eligible for program benefits on the participating farms. Also, compliance in the wheat program is not necessary to qualify for benefits from other program crops.

- You may sign up from February 16 to April 16 at your county ASCS office. Final eligibility will be determined by certification of compliance, usually 4 to 6 weeks before harvest.

What About Benefits?

- Benefits include eligibility for deficiency payments on the production from 1982 acreage planted for harvest. Payments will be made if the national average farm price during June-October 1982 is less than the $4.05-a-bushel target price.

- By participating, you may also receive a regular loan of $3.55 a bushel, or place your wheat in the farmer-owned reserve and receive a loan of $4 a bushel. You will receive a prepaid storage payment of 26.5 cents a bushel for wheat placed in the reserve. Interest will be charged on the $4 loan for the first year grain is in the reserve and waived thereafter.

- You may place 1982 wheat directly into the reserve at harvest but the

national average farm price has to hit $4.65 a bushel (trigger price) before it can be redeemed without penalty.

Deciding on Participation

You can benefit by examining how the program's provisions can affect your farm's financial picture next season. Simply use the same budgeting methods used in past years to select which crops to plant: Compare the net returns for each alternative.

The examples that follow will highlight the factors you need to consider when deciding whether to paricipate. There are tables for winter wheat and spring wheat, since the decision factors are slightly different.

Returns From Participating

Consider the following example of a winter wheat grower participating in the program. Basic assumptions in the table are:

- The acreage base is 100 acres and 100 acres have been planted in winter wheat, but only 85 are harvested--the maximum permitted.
- Expected yield is 36 bushels an acre on the 85 planted acres.
- Program payment yield is established by ASCS at 33 bushels an acre.
- Variable harvest costs are $15/acre.
- The value of haying or grazing the 15 conserving acres is $20/acre.

The sample farm considers receipts from three sources--a cash sale, deficiency payments, and haying or grazing idled acres. Receipts from the cash sale are estimated using an expected harvest-time price of $3.55 a bushel--the national average loan rate--and actual production. Deficiency payments are estimated using program production and an estimated deficiency payment rate of 50 cents--the difference between the wheat target price of $4.05 and the expected farm price.

Only variable costs for harvesting are considered since winter wheat is already in the ground. There's no need

WINTER WHEAT RETURNS[1]

	Participant		Nonparticipant	
INCOME				
1 Acres harvested	85		100	
2 Yield/acre (bu.)	x 36		x 35	
3 Production (bu.)	3,060		3,500	
4 Average price ($/bu.)	x 3.55	3.80	x 3.55	3.80
5 Subtotal income ($)	10,863	(11,628)	12,425	(13,300)
6 Payment yield (bu.)	33		0	
7 Harvested acres	x 85		0	
8 Production for payment (bu.)	2,805		0	
9 Deficiency payment ($/bu.)	x .50	.25	0	
10 Total payments ($)	1,402.50	(701.25)	0	
11 Reduced acres	15		0	
12 Income/acre[2]	x 20		0	
13 Total from reduced acres ($)	300	(300)	0	
14 Total gross income: (5+10+13), $	12,565.50	(12,629.25)	12,425	(13,300)
EXPENSES				
15 Acres harvested	85		100	
16 Variable harvest costs ($/acre)[3]	x 15		x 15	
17 Total ($)	1,275	(1,275)	1,500	(1,500)
18 Income less harvest costs: (14-17), $	11,290.50	(11,354.25)	10,925	(11,800)

[1] Returns above harvest costs per 100 acres of wheat base. [2] Haying and grazing permitted on acreage already planted to wheat. [3] Only harvest costs are relevant; planting costs have already been incurred.

to include fixed costs because they are the same regardless if the farm participates. In this example, net returns from participating are $11,290.50.

Returns From Not Participating

By not idling land, our example farm can harvest all 100 acres of wheat, and earn larger receipts from the cash sale than would be earned by reducing acreage. However, when not participating, the farm faces some offsetting factors.

- The additional land harvested is assumed to include marginal land, so average yield on 100 acres harvested is slightly lower than for 85 acres.

- To harvest the extra land, the nonparticipant foregoes any deficiency payments and is not eligible for other program benefits.

Net returns when not participating--$10,925--are about $365 below returns when participating, so program compliance benefits this sample farm.

Remember, your expected price, costs, yields, and so on will surely differ from those in this example. But, by plugging in your own estimates this method can help you evaluate the benefits and costs of the program.

If Prices Strengthen

In the example, the national average loan rate for the 1982 crop was used as next season's expected price. This assumption gives the maximum possible deficiency payment, helping to make participation attractive. So, what happens to net returns if farm prices are higher and deficiency payments are lower?

A farm price of $3.80 with a 25-cent deficiency payment, for example, results in nonparticipation being more profitable. (See the figures in parentheses in the winter wheat table.)

At some price, net returns from participation will equal those of nonparticipation. This "equalizing" price can be found by using the estimates from item numbers 3,4,8, and 18 in the winter wheat table, and 3,4,8, and 19 in the spring wheat table.

Let's use the calculations in the winter wheat table for the $3.55 cash price. The "equalizing" price--call it EP--is found as follows:

$$EP = \$3.55 + \frac{\$11,290.50 - \$10,925}{3,500 + 2,805 - 3,060}$$

$$= \$3.55 + \frac{\$365.50}{3,245} = \$3.66$$

The example suggests that if the grower on our sample farm expected an average price of less than $3.66 for 1982 wheat, participation would be the more profitable action. An expected price above $3.66 could mean nonparticipation is more attractive, depending on the value the grower places on other bene-

SPRING WHEAT RETURNS[1]

	Participant		Nonparticipant	
INCOME				
1 Acres harvested	85		100	
2 Yield/acre (bu.)	x 28		x 27	
3 Production (bu.)	2,380		2,700	
4 Average price (bu.)	x 3.55	3.80	x 3.55	3.80
5 Subtotal income ($)	8,449	(9,044)	9,585	(10,260)
6 Payment yield (bu.)	26		0	
7 Harvested acres	x 85		0	
8 Production for payment (bu.)	2,210		0	
9 Deficiency payment ($/bu.)	x .50	.25	0	
10 Total payments ($)	1,105	(552.50)	0	
11 Total gross income: (5+10), $	9,554	(9,596.50)	9,585	(10,260)
EXPENSES				
12 Acres harvested	85		100	
13 Variable costs/acre ($)	x 60		x 60	
14 Total variable costs ($)	5,100	(5,100)	6,000	(6,000)
15 Reduced acres	15		0	
16 Cost/acre ($)	x 22		0	
17 Total conservation cost ($)	330	(330)	0	
18 Total variable costs: (14+17), $	5,430	(5,430)	6,000	(6,000)
19 Income less variable costs: (11-18), $	4,124	(4,166.50)	3,585	(4,260)

[1] Returns above variable costs per 100 acres of wheat base.

fits of participation such as eligibility for regular and reserve loans. To find the "equalizing" price for your farm, just substitute the values you've estimated for those in the example.

Benefits of the Loan and Reserve Program

Let's say you complete the table using your own estimated cash prices, costs, yields, and so forth. What if you find that net returns from participation are, say, $750 below those from nonparticipation? Should you ignore the reduced acreage program?

The analysis in the table only considers cash price and deficiency payment combinations. To answer the question, you have to decide how valuable the loan and reserve programs are to you. If they are worth more than $750, you should participate.

To change your address return the mailing label from this newsletter with your new address to EMS-INF, Room 440 GHI, U.S. Department of Agriculture, Washington, D.C. 20250.

It's difficult to put a value on eligibility for the reserve program. But, consider that the reserve loan ($4) plus the prepaid storage payment ($.265) is $.715 above the regular loan rate. So, on a 100-bushel basis, wheat placed in the reserve will generate an additional cash flow of $71.50 over what would be realized by selling at the loan rate.

Look again at the winter wheat table. Returns from nonparticipation are about $446 greater than those for participation when the expected price is $3.80--25 cents above the loan. Each 100 bushels of wheat put in the reserve will generate an additional cash flow of $46.50--100($.715 - .25)--compared with selling at $3.80. So, additional cash flow from 960 bushels of wheat ($446 ÷ 46.50) put in the reserve would help to offset the $446 advantage of nonparticipation shown in the example.

Special Cases

The winter wheat table assumes that the choice is to harvest at the base level or reduce acreage to 85 percent of the base. Some winter wheat producers, particularly in the South, planted in excess of their base last fall. Others, in the Corn Belt, planted below. The analysis shown in the table still applies, but it's a little more complicated, especially for farmers who planted above their base.

Say your base was 100 acres and you planted 120. To comply with the program, you must harvest no more than 85 acres of wheat. Of the 35-acre difference (120-85), 15 must be put in conserving uses, leaving 20 acres that can be planted to another crop. Therefore, the participation decision involves a comparison of the expected net returns above harvest costs from 120 acres of wheat to the sum of: Expected net returns above harvest costs from 85 acres of wheat, the value of 15 acres in conserving use, and net returns above total variable costs of planting 20 acres to a spring crop.

For Spring Wheat Producers . . .

The decision process shown in the spring wheat table is roughly the same as for winter wheat. However, the spring wheat grower measures returns above total variable costs since the crop is not yet planted. Also considered are costs of putting land in a conserving use such as summer fallow. And, the participating spring wheat grower will not be allowed to graze or hay wheat acreage put in conserving uses. On balance, because of a greater cost saving, the spring wheat producer may find the reduced acreage program more attractive than the average winter wheat grower.